



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Testimony of:

William C. Dally
Deputy Executive Director
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Hearing on:

“Emergency CDBG Funds in the Gulf Coast:
Uses, Challenges, and Lessons for the Future”

Committee on Financial Services
Subcommittee on Housing and Community Opportunity
United States House of Representatives

May 8, 2008

Chairwoman Waters, Ranking Member Capito, and Members of the Committee:

My name is Bill Dally and I am Deputy Executive Director of the Texas Department of Housing and Community Affairs (TDHCA). TDHCA has been designated by Governor Rick Perry as the lead agency in Texas responsible for Hurricane Rita recovery. Thank you for inviting me to update you on these efforts.

I would like to start by saying that TDHCA is clearly not a first responder agency. Rather, we are Texas' lead agency responsible for affordable housing, community and energy assistance programs, and colonia housing activities. The Department annually administers funds in excess of \$400 million, the majority of which is derived from federal grants, federal tax credits, and mortgage revenue bond financing.

Our enabling legislation allows the Governor to assign additional programs not contemplated in statute, which is how we became active in disaster recovery. The disaster recovery program was assigned to TDHCA because local communities and officials identified housing as the overwhelming need after hurricanes Rita and Katrina impacted Texas.

Primary among the duties that TDHCA carries out is to assist local communities in overcoming financial, social and environmental problems to help put affordable housing on the ground. Another legislative charge is to contribute to the preservation, development and redevelopment of neighborhoods and communities.

We have an excellent track record in accomplishing these goals and we like to think that is one of the reasons why we were asked to take on the disaster recovery program that has assisted individuals and entire neighborhoods throughout Southeast Texas.

With the first allocation of federally appropriated funds in May 2006 – \$74.5 million in Community Development Block Grant (CDBG) dollars – we worked closely with and listened to local elected officials, community leaders and faith-based organizations. We clearly heard the message that because the funds were so limited, local governments wanted to be directly involved with their distribution so that they could maximize these funds. Consequently, TDHCA utilized local Councils of Government which are organizations made up of local elected officials and key staff that serve as regional planning boards. There are three Councils of Government in Southeast Texas that we contracted with in July 2006 for the distribution of \$40.3 million in housing funds which came from the \$74.5 million appropriation.

These Councils of Government are responsible for identifying and qualifying eligible families for help, and then hiring contractors to make emergency repairs or rebuild a home, or to replace a manufactured housing unit. The balance of the \$74.5 million is being used for critical infrastructure repair throughout Southeast Texas.

Given the funds available at the time, we believed that working through the Councils of Government would allow local governments to weigh the needs of all the residents of the region and provide the greatest impact. In all instances, the intended beneficiaries of these funds are the lowest-income Texans, those at well below 80 percent Area Median Family Income, and we've given priority to seniors, persons with disabilities, and other vulnerable populations.

This process did take some time to get up and running because of the complexities of the CDBG program, and the State of Texas' overriding desire to rebuild communities – restoring both the region's tax base and people's lives.

Texas' action plans for the first and second supplemental – as approved by HUD – clearly outlined the expectations we have regarding compliance with all fair housing laws. CDBG funds mandate that all subgrantees adhere to this provision and we have done so in Texas through our research, our outreach to communities, and our construction processes.

It is important to note that Texas identified more than \$2 billion dollars in need in the region from both Hurricane Rita direct damage – more than 75,000 homes were damaged or destroyed – and Hurricane Katrina needs with the flood of more than 400,000 evacuees that Texas welcomed with open arms. That is why we also welcomed the second appropriation of funds by Congress which raised our total allocation of disaster recovery dollars from \$74.5 million to \$503 million in CDBG funds. However, that second round of funding, \$428.6 million, was not fully available to Texas until just 13 months ago, when our grant agreement was signed with HUD.

Texas is grateful for the efforts of Congress to assist our communities with the funds to implement recovery. Our Texas Congressional delegation did an outstanding job understanding the rebuilding needs of the region and securing these funds. However, the State still had to make tough choices about how to help communities recover.

After much public discussion again with local officials, community groups and faith-based organizations, Texas chose to continue on the path of assisting individuals and communities by focusing on actual housing and infrastructure construction. Building a home, repairing a home, or replacing a manufactured housing unit takes a greater amount of time than qualifying someone and simply issuing a check to cover their storm damage. Again, Texas chose because of our

limited funds to do a rebuilding program and not a compensation program that other states have opted to do because of their more generous allocations from HUD. Also, because of the limited funds available, we had to tell people who had already rebuilt that we were going to assign first priority to those who could not rebuild without government assistance.

The decision to undertake a rebuilding program caused us to move more slowly than we wished in qualifying residents and ensuring that they were eligible for the program. Qualifying residents has been a challenging process. The factors that caused many of the delays – environmental clearance, historic preservation requirements, flood plain limitations, and duplication of benefits restrictions – are all requirements of federal law or HUD rules. The only limitation Texas has regards the amount of funds an individual may receive so as to distribute disaster help as broadly as possible. I would also like to note that HUD is also an agency not typically in the disaster recovery business; yet, we have received tremendous technical assistance from career staff at HUD to navigate these complicated issues.

TDHCA remains confident that we will have all housing funds from the first round of the \$74.5 million allocation distributed and homes built by the end of the year. Most of the work we are doing are full rebuilds of homes, and we expect that for the \$40.3 million in housing funds, we will rebuild or replace nearly 500 homes.

For the second round of funds – \$428.6 million – Congress approved this appropriation in the summer of 2006. HUD gave us approval of our action plan on how to best use these funds for the second round in April 2007, again just a little over a year ago.

TDHCA committed all \$428.6 million in funds by September 2007. It took some time because several of the programs were competitively run, and required communities to submit applications and to be judged on the number of low-income persons who would benefit or be helped. In the case of the Homeowner Assistance Program, for which \$222 million has been dedicated, TDHCA used a competitive bid process. We selected a group of professionals to help the state expedite the delivery of funds to qualified homeowners and to build homes and make repairs.

The contractor team is well in the midst of working on the delivery process of these funds and qualifying applicants who were not funded through round one. We are confident that significant construction activity will commence early this fall as homes are rebuilt.

On a final note, we also know that starting over in a new community is difficult. That is why the State has dedicated \$60 million of the \$428.6 million in

round two to the City of Houston and Harris County to assist and provide services for evacuees from Hurricane Katrina.

For the entire disaster recovery program in Texas, we believe that we have turned the corner from the planning stage and are now fully into the building and reconstruction stage throughout the region. Furthermore, we expect that all funds – all \$503 million – will be fully used within the next two and a half years.

We welcome the Committee exploring funding options for states responding to a major disaster and asking tough questions about who should have ultimate responsibility for the inevitable longer-term recovery. In Texas, I believe that we have done some things very well. When you look back at our program, I believe that you will find strong accountability and controls intended to prevent instances of fraud, waste and abuse that have plagued other disaster recovery programs as has been reported in the press. You will also find that our program actually built homes and repaired infrastructure for those whom the program was intended – our lowest-income Texans, seniors, and persons with disabilities.

Again, I thank you for this opportunity and I would be pleased to respond to any questions that you may have.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Rebuilding Texas: Disaster Recovery from Hurricane Rita
Appropriations Summary

First Supplemental Appropriation (\$74.5 million) – Public Law 109-148

Purpose	To Date	Next Steps	Completion
\$40.3 million for housing	173 homes completed or near completed	Construction and rehabilitation of remaining 327 homes	December 2008
\$30.5 for infrastructure	19 of 97 projects are completed	Finish completion of remaining 78 projects	November 2008

Second Supplemental Appropriation (\$428.6 million) – Public Law 109-234

Purpose	To Date	Next Steps	Completion
Homeowner Assistance Program - \$210 million	3 service centers operational, conducting application intake	Finish intake, begin bid process for construction, rehabilitation	March 2010
Sabine Pass Restoration - \$12 million	66 applications submitted; ongoing outreach	Construction contractor selection in May 2008	August 2009
Rental Housing Restoration - \$82.8 million	\$81 million awarded to 7 developments restoring 813 destroyed units	Loan closings complete by July 2008, all construction commenced by August 2008	September 2010
Houston/Harris County Program - \$60 million	All \$60 million allocated	Houston procuring contractors to administer multifamily component	July 2010
Infrastructure - \$42 million	8 contracts executed and projects ongoing	Completion of project work	March 2010

**Expenditures (“drawdown”) for each project are made in increments with the majority of the amount being expended towards the end of the construction phase*

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Rebuilding Texas: Disaster Recovery from Hurricane Rita First Supplemental Update

Timeline

- September 24, 2005: Hurricane Rita makes landfall near Sabine Pass approximately one month after Hurricane Katrina sends 400,000 evacuees into Texas
- December 30, 2005: Congress appropriates \$11.5 billion in Community Development Block Grant funds for disaster recovery. Texas has identified more than \$2 billion in needed assistance
- February 2006: HUD announces availability of \$74.5 million in CDBG funds for Texas from Congressionally appropriated funds
- February – May 2006: TDHCA produces draft plan and obtains significant public comment on proposed State of Texas Action Plan (application for CDBG funds) and holds public hearing where the TDHCA Governing Board approves the plan representing the comments of the public.
- May 2006: Texas submits Action Plan; HUD approves Plan and awards \$74.5 million to Texas, some nine months after hurricane hits state but less than four months since funds made available
- May – July 2006: Office of Governor coordinates with TDHCA and COGs to determine funding amounts for each community to be represented by their COG based on most severe impacts. Grant agreement signed June 19, 2008; funds available.
- July 2006: TDHCA Governing Board awards funds to Councils of Governments (COGs) at first available meeting
- August 2006: Contracts are developed and signed and COGs begin intake of applications and planning for other elements of process
- October 2007: Intake completed having reached more than the number of applicants who could be funded
- November 2007 – present: Applicant certification process, manufactured home replacement process, and, bid and construction process for conventional homes
- December 2008: All construction, home replacement projected to be complete

Status of Housing Funds
\$40.3 million

Key Accomplishments:

- All eligible Texas families that can be assisted under this first round of funding have completed necessary paperwork to receive assistance under this first round of funding. Applicants that have filed applications but have not yet been approved have been forwarded to the contractor – ACS – for consideration in the second round of funding.
- Seventy-five percent (75%) of the homes contracted to be served are either in the bid process, awarded, under construction, or completed.
- One hundred seventy-three (173) homes have either been completed or are near completion
- One hundred fifteen (115) additional homes are ready to begin construction
- Seventy (70) homes are out for bid and bid packages are being developed for all additional applications that have been approved
- \$11.2 million of the allocated \$30.5 million for infrastructure needs has been expended
- \$6.9 million of the allocated \$40.2 million for housing needs has been expended
- Expenditures (“draw downs”) for each project are made on a reimbursement basis in increments with the majority of the amount being expended towards the end of the construction phase

Key Projection:

- All homes will be completed or nearly completed by December 1, 2008
- Infrastructure projects will be completed by December 1, 2008

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Rebuilding Texas: Disaster Recovery from Hurricane Rita Second Supplemental Update

Timeline

- September 24, 2005: Hurricane Rita makes landfall near Sabine Pass while Texas is working to help over 400,000 refugees displaced from Hurricane Katrina
- June 15, 2006: Congress appropriates a second round of CDBG funds for disaster recovery after Texas has identified \$2 billion in need and received \$74 million from the initial funding
- October 30, 2006: HUD announces availability of \$428.6 million for Texas
- October through December 2006: Governor Perry meets with leaders of affected communities to determine how to divide funds to help the largest number of impact people from both Hurricanes Katrina and Rita
- December 2006-January 2007: Using a comprehensive plan worked out with community leaders, TDHCA drafts an action plan and holds public hearing throughout the region to solicit and receives significant public comment on proposed State of Texas Action Plan (application for CDBG funds)
- February 2007: TDHCA Board approves plan and State submits plan to HUD at its first available meeting after the public comment is incorporated
- April 2007: HUD awards \$428.6 million in Community Development Block Grant funds to State of Texas for disaster recovery to help Texans rebuild their homes which have gotten worse with homes damaged in the fall of 2005 having been subjected to almost 100 inches of additional rain
- April-August 2007: Working with experienced federal contracting attorneys at Vinson & Elkins, TDHCA issues a Request for Proposals for third-party administrator to oversee housing assistance program; collects and evaluates proposals; and, selects top proposal and analyzes the submitted information to determine the best proposal and conducts initial clean up of the top proposal to make certain they can perform the work before making a recommendation
- August 2007: TDHCA Board approves the selection of the nationally recognized ACS State and Local Solutions, Inc. team that includes Katrina-experienced consultants Reznick Company and Shaw Engineering, as the third-party administrator who will manage \$222 million in funds to repair or rebuild homes in the region thereby assuring the money will go toward rebuilding communities and providing safe affordable housing

- August 2007: TDHCA awards \$6 million to Memorial Hermann Baptist Orange Hospital to replace damaged equipment in Orange County deemed by the community to be the most important medical resource in the area
- September 2007: TDHCA Governing Board also awards 81 million dollars in rental housing stock restoration to seven Golden Triangle-area affordable multifamily rental developments. The construction work, once completed, serves low-income individuals and families and will restore 813 rental units housing demolished by Hurricane Rita.
- October 2007: TDHCA awards \$10 million to Hardin County for timber and debris removal to help stop additional flooding that has isolated neighborhoods and caused additional home loss because of “natural damming” of the local rivers
- October 2007: TDHCA executes contract with City of Houston for \$40 million based on a plan to specifically help Hurricane Katrina victims who are relocating to Texas
- November 2007: TDHCA executes contract with Harris County for \$20 million; total of \$60 million for the City of Houston and Harris County Public Service and Community Development Program to provide much needed support to Katrina refugees now residing in Harris County
- November 2007: TDHCA awards \$26 million in non-housing (infrastructure) funding and prioritizes an additional \$48.6 million amount of need in the region if funds become available
- December 2007: TDHCA awards \$3.8 million to Bridge City to repair water treatment facility and all funds are now awarded to administrators under the second round of funding eight months after funding was made available to Texas
- December 2007: State and ACS reach an agreement on how to protect Texans and still provide safe affordable housing to victims of Hurricane Rita that have been waiting for assistance. The contract allows for significant expediting of approving existing applications that were collected but not funded in Round 1 and calls for contracts with local builders to provide cost efficient reconstruction or manufactured home replacement where necessary by local builders thereby assuring a commitment to the home by the builder and helping the local economy
- December 2007: All funds are allocated as State of Texas/TDHCA finalizes contract with ACS

Funding Breakdown:

Activity	Available Funding for Activity
Homeowner Assistance Program (“HAP”)	\$210,371,273
Sabine Pass Restoration Program (“SPRP”)	\$12,000,000
Rental Housing Stock Restoration Program (“Rental”)	\$82,866,984
City of Houston and Harris County Public Service and Community Development Program (“Houston/Harris”)	\$60,000,000
Restoration of Critical Infrastructure Program (Infrastructure)	\$42,000,000
State Administration Funds (Used to Administer Funding)	\$21,433,592
Total Plan Funding	\$428,671,849

Status of Contract Awards

- Expenditures (“drawdowns”) for each project are made in increments with the majority of the amount being expended towards the end of the construction phase.
- The following expenditures have been drawn down: \$1.5 million for rental housing restoration; \$1.1 million for infrastructure; \$679,000 for state administrative funds; and, \$122,000 for City of Houston/Harris County programs.